New Stresses on Confederation

Diverging Regional Economies

Observation No. 28
C.D. Howe Institute

Edward A. Carmichael

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Foreword

Plunging prices for crude oil and grain in early 1986 have had an immediate negative impact on the economic performance of Canada's resource-producing regions, widening the divergence with central Canada, which has been the winner in the country's recovery from the severe 1981–82 recession.

This *Observation* assesses the reasons for and the policy implications of these contrasting performances. It points out that economic policies have layed a role in exacerbating the country's regional differences and suggests that in choosing responses, policymakers would be well advised to cushion the losers rather than to shield them from change entirely.

Prepared by Edward Carmichael, Director of Policy Research, this *Observation* represents the views of Institute staff. It does not necessarily reflect those of its board or members. Bruce Ewen provided research assistance; Lenore d'Anjou edited and Cordelia Sharpe prepared the manuscript.

Introduction

Canada's five regional economies have been marching to different drummers during the economic expansion that began in 1983. Ontario and Quebec have experienced a strong rebound from the 1981–82 downturn, while the other regions remain mired in recession. The purpose of this *Observation* is to identify the reasons for this phenomenon and to consider its significance for future economic policy choices.

Our diagnosis emphasizes the importance of distinguishing cyclical problems, which arise through normal market dynamics and tend to be self-correcting, from structural problems, which require changes in the industrial or institutional organization of economic activity if they are to be remedied. Throughout Canada's history, cyclical swings in world markets for natural resources have had different effects on its regional economies. The resource scarcity and rising prices of the 1970s, for example, led to boom times for the West but to slow economic growth in Ontario and the Atlantic region. Now the situation has reversed itself, and the downturn in world prices for crude oil, grain, and other natural resources is causing much of the present weakness in the regional economies outside central Canada.

These cyclical causes of divergence are quite different from persistent disparities that reflect basic regional variations in economic structure and productivity. Debates about whether and how to reduce these fundamental structural differences are older than Confederation. These questions are vital to Canadians, but they are not the only vital questions. This study focuses on whether and how economic policy can alleviate the stresses created by large swings in world commodity markets.

In the first section of this study, we contrast the general view that Canada's recent economic performance has been quite good with the regionally based emphasis on the significant differences in economic performance that exist across the country. Few people in central Canada seem to recognize, for example, that employment in Western Canada has been essentially stagnant since 1981.

In the next section, we examine these regional differences; our analysis suggests that although the weakness in world commodity markets is the principal determinant, some Canadian policy measures have actually aggravated the situation. In the following section, we evaluate the near-term prospects for the resource-producing regions, noting that declines in oil and agricultural prices as well as U.S. protectionism are major sources of pressure on Canadian governments.

In the final section, we draw lessons from past policy for addressing the regional imbalances of the late 1980s. The basic economic structures in various parts of Canada are such that sudden, large changes in world markets can create difficult adjustment problems not only for firms and

their employees but also for entire regions. Just as governments in the 1970s faced pressures from resource-consuming regions to deal with the impact of rising commodity prices, governments now face pressures to cushion the worst effects of declining commodity prices. The experience of the 1970s suggests, however, that policy measures that permanently shield adversely affected industries only block the private-sector adjustment necessary to ensure that living standards continue to rise across the country.

National and Regional Perspectives

In 1985, the overall Canadian economy achieved its most favorable mix of economic growth and low inflation since the early 1970s. Real growth was stronger in Canada than in any major industrial country except Japan. Economic activity became better balanced as consumer spending and business investment replaced exports as the main engines of growth. Consumer prices increased at only a 4 percent rate, and the broadest measure of inflation, the gross national expenditures deflator, at barely more than 3 percent. Wage settlements in the 3 to 4 percent range combined with solid, if unspectacular, productivity growth, keeping increases of production costs low. Employment growth was stronger in Canada than in any other major industrial country, and there was a shift in the composition of jobs toward full-time and away from part-time work. The unemployment rate continued its steady but gradual decline to below the 10 percent level, in spite of a large influx of job-seekers into the labor market.

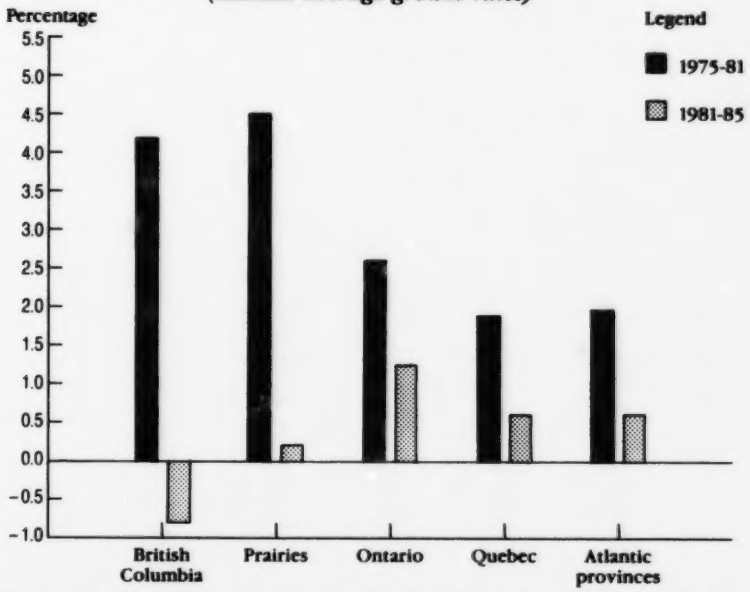
Thus, at the end of 1985, the outlook was positive. For example, the Organisation for Economic Co-operation and Development (OECD) expressed enthusiasm about Canada's prospects for "continued expansion".[1]

Optimism about the economic environment has been shaken, however, by the events of early 1986. Although the collapse of oil and grain prices is contributing to a further decline in broadly measured inflation, it is also adding to the problems of Canada's resource-producing regions created by four years of weak commodity prices. The sharp rise of interest rates in February ended what was perceived to be excessive speculation against the Canadian dollar, but their subsequent slow decline has endangered prospects for economic growth.

Overall, the improvement in the aggregate economic statistics in 1985 was not a sign that all was well with the Canadian economy. The perception that Canada's economy was experiencing its best performance in a decade was much more likely to be encountered in Toronto than in Vancouver, Calgary, Moncton, or St. John's. Although the national statis-

[1]Organisation for Economic Co-operation and Development, *OECD Economic Outlook* (Paris: OECD, December 1985), p. 128.

Figure 1
Regional Variations in Employment Growth, 1975–85
(annual average growth rates)

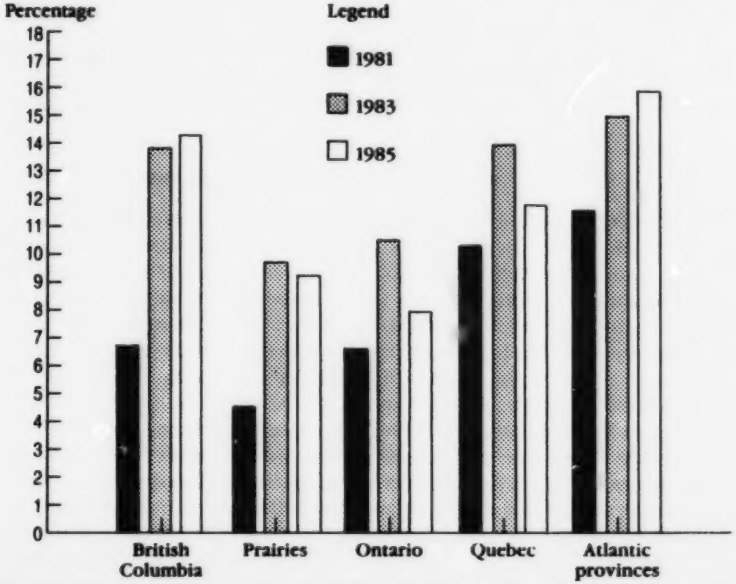


Source: Statistics Canada, *Historical Labour Force Statistics, 1985*, Cat. no. 71-201, (Ottawa, 1986).

tics indicated broadly based expansion, they masked a pattern of growth that diverged widely across the regions.

The most closely watched indicators of how the regional economies are performing are employment growth, the unemployment rate, and trends in per capita income. Figure 1 shows that the pattern of regional employment growth in the first half of the 1980s reversed the trend established in the last half of the 1970s. In the 1975–81 period, when producers of oil and other natural resource commodities benefited from rising prices in world markets, Western Canada experienced employment growth that was booming relative to the growth in central Canada and the Atlantic region. During the 1981–82 recession, employment declined in all regions. Initially, Quebec and British Columbia were hit hardest. Then the Prairies experienced stagnation of job growth. Since the recovery began in 1983, Ontario has had the strongest job-generation; by 1985, it had 5.5 percent more jobs than it had had in 1981. Quebec and the

Figure 2
Regional Unemployment Rates, 1981, 1983, and 1985

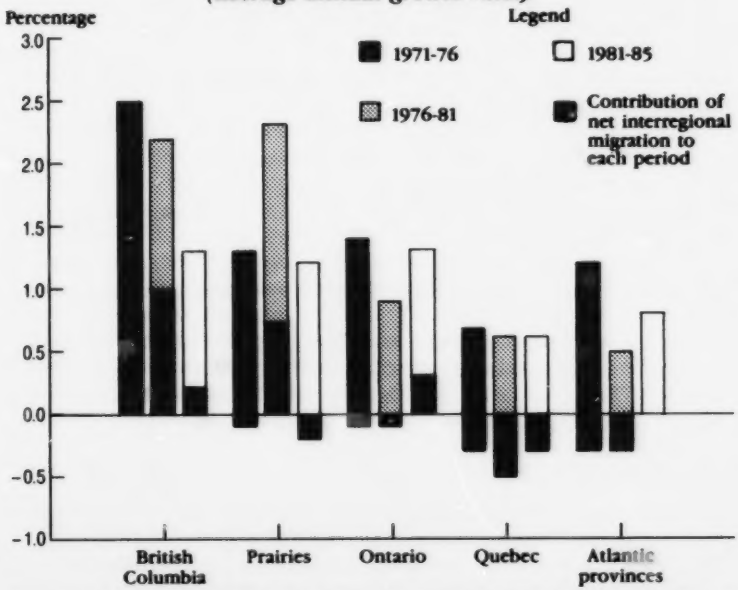


Source: Statistics Canada, *Historical Labour Force Statistics, 1985,* Cat. no. 71-201, (Ottawa, 1986).

Atlantic region had also regained the jobs lost in the recession, and their 1985 employment stood 2.8 and 2.6 percent respectively above 1981 levels. In the West, however, the job situation has been slow to improve. Fewer people were employed in British Columbia — or in Western Canada as a whole — in 1985 than in 1981.

These regional differences in employment growth have had considerable effects on regional unemployment rates, which are shown in Figure 2. All regions experienced a sharp rise in unemployment during the recession. In Ontario and Quebec, the rates peaked in 1983 and have fallen significantly since then. In the Prairie region, however, the unemployment rate has not declined appreciably, while in British Columbia and the Atlantic region unemployment rates were higher in 1985 than in 1983.

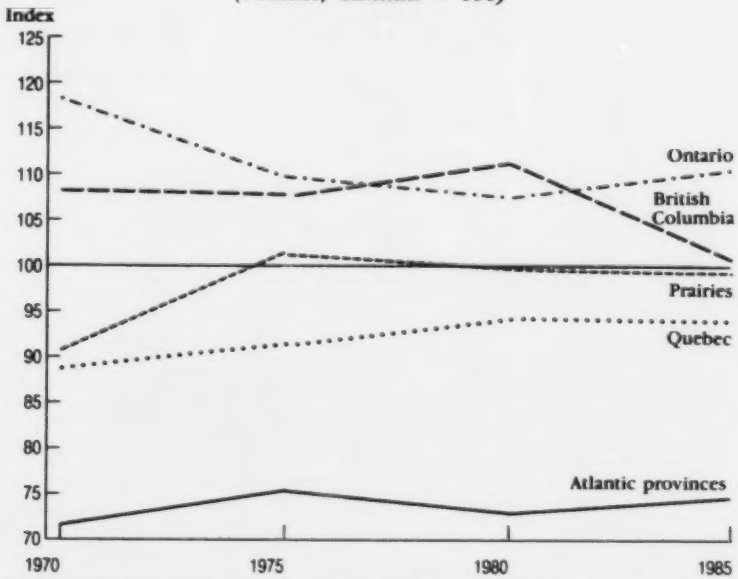
Figure 3
Regional Population Growth, 1971-85
(average annual growth rates)



Sources: C.D. Howe Institute, based on population data from Statistics Canada, *Review*, Cat. no. 11-003E (Ottawa, March 1986), p.14, and Cansim matrix 60, and on migration data from Statistics Canada, *Post-Censal Annual Estimates of Population by Marital Status, Age, Sex and Components of Growth for Canada, Provinces and Territories*, Cat. no. 91-210, vol. 3 (Ottawa, June 1985).

The uneven economic performance across the country is also reflected in shifting patterns of regional population growth. Figure 3 shows such growth, including the contribution of net interregional migration, since 1981. During the 1971–76 period, British Columbia had the fastest-growing population in the country, with one-third of its growth coming from net migration from the other regions of Canada. From 1976 to 1981, years of increasing oil and commodity prices, the Prairies' soaring growth rate roughly matched that of British Columbia. Population growth slowed dramatically in Ontario and the Atlantic regions during this period and remained low in Quebec. Significant migration from Quebec and the Atlantic region to Western Canada, where jobs were more plentiful, was largely responsible for the skewed growth pattern.

Figure 4
Regional Differences in Per Capita Personal Income, 1970-85
(Indexes; Canada = 100)



Sources: C.D. Howe Institute, based on data from Statistics Canada, *Provincial Economic Accounts, 1969-84*, Cat. no. 13-213, (Ottawa, 1986); and Conference Board of Canada, *Provincial Outlook* (Ottawa, March 1986).

The exodus from east to west ended in 1982. Net out-migration halted in the Atlantic provinces and diminished in Quebec in the 1981–85 period. The Prairie provinces experienced out-migration and British Columbia a sharply diminished rate of in-migration from other provinces. As the oil boom ended, many easterners returned home, keeping unemployment from rising even higher than it did in Western Canada but adding to joblessness in other parts of the country, particularly the Atlantic region. In Ontario, where economic prospects were brightening, however, the net outflow of the 1970s turned into a considerable net inflow, raising the province's population growth rate to the highest in the country.

The shifting of population growth rates among the regions not only results from differences in economic performance; it also reinforces that imbalance. People move to the regions where job prospects are better, and in the process, the movers add to the growth of demand in the receiving region.

The reversals in regional employment and population trends that have occurred in the 1980s are reflected in measures of personal income per capita (see Figure 4). Between 1970 and 1980, there had been a narrowing in per capita income differentials across the country; by the end of the decade, per capita income in British Columbia exceeded that of Ontario, which had been the leader, and all other regions gained ground against Ontario. During the first half of the 1980s, however, relatively strong growth in the Ontario economy has restored it to first place, while stagnation in British Columbia has produced a marked drop in that province's relative position.

When one looks at all the indicators, the picture that emerges is one of uneven economic performance across Canada's regions. Important regional differences exist in the strength of the recovery, and there is little indication in early 1986 that the gaps are narrowing.

Causes of Diverging Regional Economic Performances

Regional economic performance within Canada is heavily, though not exclusively, influenced by movements in the relative prices of raw materials. These commodity prices are characteristically set in world markets, and Canadian producers have little, if any, influence on their level.

Over the short-term, commodity prices in world markets tend to be volatile, reflecting the fact that large movements are brought about by relatively small changes in supply or demand — in economists' jargon, commodities tend to have low price elasticities of both supply and demand in the short term. In the longer term, however, these elasticities are much higher — over a period of several years high prices bring forth both substantial increases in the supply of commodities (as new sources are brought on-stream) and substantial reductions in demand (as consumers find new ways to economize in their use of natural resources).

The lengthy lags in the response of supply and demand in commodity markets tend to create long cycles in which years of scarcity and high prices are followed by years of excess capacity and depressed prices. For example, developments on the supply side in the 1950s — increased capacity and productivity in resource industries — contributed to a decade of low and stable commodity prices in the 1960s. Developments on the demand side in that decade — the lengthy expansion of the world economy — contributed to shortages and the commodity price boom in the 1970s. These high prices eventually reduced demand by encourag-

ing conservation and the development of new supplies of oil and gas, minerals, and forest products. Now, in the mid-1980s, considerable excess capacity exists in most raw material industries, even though prices have been declining for several years.

If resource-producing industries were spread in equal proportions across Canada, these boom and bust cycles in commodity markets would have little impact on the relative economic performance of the country's regions. But the distribution is not equal. Virtually all of Canada's oil and gas production is located in the four western provinces, with the heaviest concentration in Alberta. Mining and forest products are more important in British Columbia and the Atlantic region than in other parts of the country. Agriculture plays a relatively important role in the economies of the Prairie region and Prince Edward Island. Ontario and Quebec, the home of more than 80 percent of Canadian manufacturing, are the country's major resource-consuming economies.

Thus, one cannot expect the regional economies to move in unison. The existence of industrial structures that vary across the country's regions creates the possibility of levels of economic performance that vary widely. Recently, the combined effect of a number of economic trends has turned this possibility into reality.

For analytical purposes, the causes of this divergence can be divided into factors external to the country and factors internal to it. The external factors include the decline in oil prices and the behavior of other commodity prices. Internal factors that have been important include government macroeconomic policies as well as trade and industrial policies.

Oil Prices and Energy Policy

The two oil price shocks of the 1970s forcefully shifted the locus of Canadian economic growth to Western Canada. The subsequent decline and recent collapse of oil prices have been shifting the center of growth back to the energy-consuming provinces.

The oil boom and bust have had dramatic effects on the oil-producing western provinces. In the decade from 1971 to 1981, annual revenues from oil and natural gas production there increased more than tenfold, from less than $2 billion to more than $20 billion. The sharp rise in energy revenues pushed up the West's share of Canadian corporate profits, business investment, housing starts, and retail sales. Canadians from other provinces moved to the West in search of jobs and more buoyant economic prospects. Alberta, with 90 percent of the country's petroleum production, experienced the strongest growth; housing starts in that province doubled between 1974 and 1981, and its share of national business investment soared from 12 to 21 percent over the same period.

Saskatchewan and British Columbia, which also produce petroleum, benefited similarly, although to a lesser extent.

In central Canada and the Atlantic region, the consequences of higher oil prices in the 1970s were higher inflation and slower economic growth. The rise in oil prices pushed up manufacturing costs and the proportion of disposable incomes spent on energy, leaving less to be spent on other goods and services. Federal energy policies, however, shielded the energy-consuming regions from the full impact of the two international oil price shocks by holding the price of domestically produced crude oil below the world price. Moreover, with the introduction of the National Energy Program (NEP) in 1980, the federal government increased the regional redistribution of energy revenues; the proceeds of the new energy taxes, including the Petroleum and Gas Revenue Tax (PGRT), were used to finance energy conservation incentives across the country and exploration incentives in the frontier regions of the Arctic and the Atlantic offshore.

All of this began to change in the summer of 1981 when the world price of crude oil — which had briefly hit U.S.$40 per barrel — began to fall. Initially, Canada was unaffected. Canadian oil prices, which had been held below world levels, continued to rise according to a schedule agreed to by the federal government and the producing provinces. But as the gap between Canadian and world oil prices narrowed in 1982, domestic oil price expectations were shaped increasingly by the downward trend in world markets. In an uncertain environment of declining prices and high interest rates, a number of energy megaprojects were deferred. At the same time, federal Petroleum Incentive Program (PIP) grants were encouraging a major shift of exploration spending out of Western Canada into the frontier areas. The West's economic performance and prospects deteriorated. Growth and investment diminished, employment declined, and the unemployment rate more than doubled.

Some stability was restored in international oil markets in the 1983–85 period as both official and spot market prices were maintained at about U.S.$28 per barrel. Thus, when the March 1985 Western Accord ended the control of Canadian crude oil prices and initiated a phaseout of the PGRT (scheduled for completion in 1988), a resurgence of exploration and development activity by Western Canada's petroleum industry improved the region's economic prospects.

This energy-based resurgence was nipped in the bud by the collapse of the world oil price in early 1986. With the drop of crude oil prices and with further downward pressure on natural gas prices as decontrol proceeds, Western Canada's energy revenues will decline significantly. A reasonable estimate is that if the recent prices of U.S.$12–13 per barrel hold, as much as $10 billion annually will be cut from the stream of oil

and gas revenues flowing to industry and governments.[2] Oil and gas companies have announced layoffs, pay cuts, and reductions in their investment plans. The survival of some heavily indebted, Canadian-owned companies is now in doubt, further weakening the economic prospects of the region.

For the rest of the country, however, especially the major oil-consuming provinces of Ontario and Quebec, the oil price decline is a tonic, acting like a tax cut to raise real income and consumer spending and to lower production costs in manufacturing industries.

Nonenergy Commodity Prices

Energy commodities are only a part of Canada's rich natural resource base. Trends in the prices of other important commodities, including forest products, minerals, and agricultural products also influence regional economic performance. Figure 5 shows how movements in nonenergy commodity prices have varied across the regions. In the mid-1970s, they increased fastest in the Prairie region, reinforcing the boost given by higher energy prices. Large increases in wheat and other grain prices were primarily responsible.

Since 1980, nonenergy commodity prices have been weaker in Western Canada than in the rest of the country. British Columbia experienced large declines in lumber and copper prices in 1980–81, followed by a weak and intermittent price recovery. The Prairie region has suffered a steady decline since 1980, primarily the result of stagnant or declining grain prices. Central Canada and the Atlantic region, on the other hand, have had relatively strong indexes since 1980. In Ontario and Quebec, improved prices for newsprint and for primary iron and steel have been chiefly responsible. Stronger prices for fish, iron ore, and newsprint have helped the picture in Atlantic Canada.

This analysis indicates that an important shift in the interregional terms of trade, in favor of central Canada and the Atlantic region and away from Western Canada, has taken place in the 1980s. The regional impact of declining petroleum prices has been reinforced by the behavior of nonenergy commodity prices.

Macroeconomic Policies

Factors external to Canada — commodity prices, which are set in world markets — have clearly been important determinants of the regional diver-

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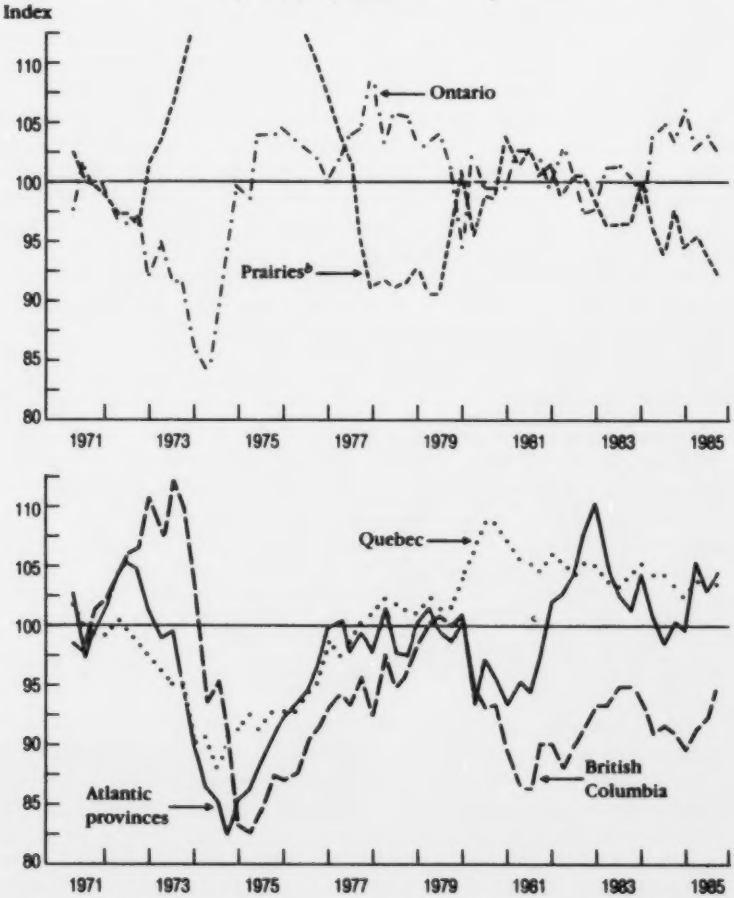
[2]The calculations for this estimate reflect the revenue loss associated with a lasting decline in the price of a barrel of crude oil to U.S.$13 from U.S.$27 assuming annual Canadian crude oil production of approximately 500 million barrels. At an exchange rate of Can.$1.00 = U.S.$0.72, the revenue loss is (U.S.$14 per barrel x 500 million barrels) ÷ 0.72 = Can.$9.7 billion.

Figure 5
Regional Variations in Nonenergy Commodity Prices, 1971-85
(Indexes[a]; Canada = 100)



[a]Indexes are weighted averages of the export prices of nonenergy commodities, with the weights representing the importance of each commodity in each region.
[b]Index for the Prairie region peaks off this scale at 144.9 in the first quarter of 1974.

Source: C.D. Howe Institute, based on export price data from Statistics Canada, *Summary of Canadian International Trade*, Cat. no. 65-001, and Cansim matrix 3684.

gence in current economic performance. But domestic factors also have played a role. One significant set of such factors has been the conduct of macroeconomic policy, including monetary policy and the fiscal policies of both federal and provincial governments.

Federal policies are usually aimed at achieving national economic goals, although the policies deemed most appropriate for the national economy may not be those most appropriate for each individual region. Moreover, few macroeconomic instruments at the disposal of the federal government can be used differently across regions. There is only one Bank of Canada rate and only one exchange rate for the Canadian dollar, and all regions must accept these rates even though they may have different impacts on interest-sensitive spending or on the competitiveness of particular exports. Similarly, although federal fiscal policy is regionally differentiated, there are limits to the government's ability to undertake major stabilization actions targeted at particular regions. Provincial fiscal policies are more suited to targeting, but, as is discussed later, there are constraints here too.

Fiscal-Monetary Mix

Economists generally agree that from mid-1981 until mid-1984, the U.S. government's mix of fiscal ease and relatively tight monetary policy contributed to a sustained period of high real (inflation-adjusted) interest rates and a rising value of the U.S. dollar in relation to the other major currencies of the world. The Canadian government's decision to follow a similar policy mix meant high real interest rates and a rising value for the Canadian dollar relative to most foreign currencies (except the U.S. dollar). The tightening of monetary policy contributed to the achievement of the important goal of ending double-digit inflation, although the accompanying recession of 1981 and 1982 was a major cause of large budget deficits.

The interesting issue in the current context is not the appropriateness of these policies from a national perspective but whether they have had the side effect of worsening the regional imbalance in economic performance. There are two reasons to believe that the federal policy mix may indeed have had this unintended effect.

First, the sharp increase in real interest rates in 1981 hit Western Canada harder than the rest of the country. As noted previously, an important contribution to the strong growth in the West in the 1976–81 period came from home building and other construction related to the region's rapid population growth and its energy megaprojects. Because construction activity is particularly sensitive to changes in interest rates, the soaring rates of the early 1980s had a more negative impact on economic activity in the West than elsewhere in the country.

Second, the behavior of the Canadian dollar has affected the export competitiveness of different regions differently. A useful measure of the effect of exchange rate movements on competitiveness is given by a country's real effective exchange rate.[3] From 1980 to 1983, Canada's real effective exchange rate appreciated, reducing its ability to compete with Europe and Japan in manufactured goods markets and with countries such as Sweden, Australia, and Mexico in resource-product markets. Since 1983, the significant depreciation in the real effective exchange rate has helped Canadians compete in some markets.

Table 1
Real Effective Exchange Rates, 1980–85
(Indexes; 1980–82 average = 100 for each country)

	1980	1981	1982	1983	1984	1985	Dec. 1985
Canada	99.6	100.0	100.4	103.1	101.2	97.4	92.9
Industrial Countries							
United States	89.4	100.6	109.9	112.7	118.2	121.3	111.9
Japan	103.0	104.6	92.3	96.6	97.6	96.4	105.1
West Germany	103.5	97.3	99.2	99.3	96.5	95.4	98.1
United Kingdom	99.9	102.3	97.9	92.0	89.3	91.9	93.2
Resource-Producing Countries							
Sweden	101.2	102.1	96.7	91.5	96.9	98.0	96.5
Australia	93.0	102.7	104.3	100.0	105.1	88.8	82.9
Argentina	116.4	107.7	76.5	71.2	80.0	71.0	63.8
Mexico	104.0	114.1	81.9	78.0	91.5	90.1	74.3

Source: Morgan Guaranty Trust Company of New York, *World Financial Markets* (New York, January 1986), pp. 12–13.

As shown in Table 1, however, Canada's real effective exchange rate has fallen by more than the rates of other industrial countries but by considerably less than those of most other resource-exporting countries. Thus, although recent currency movements have aided Canada's ability to compete in markets for manufactured goods, the opposite is true in natural resource markets. This phenomenon helps to explain the increasing success of central Canadian manufacturing in penetrating the U.S. market and the continuing competitive difficulties of the resource industries,

[3]This rate is "real" in that it is adjusted for differences in inflation rates across countries. It is "effective" in that it is a weighted average of a country's bilateral exchange rates with its major competitors.

which are relatively more important in Western Canada and the Atlantic region.

Federal and Provincial Fiscal Policies

The budgets of both the federal government and each of the ten provinces are another important domestic factor contributing to the regional differences in economic growth.

Federal fiscal policy is differentiated regionally. Part of the differentiation is automatic — a deeper recession in one region of the country automatically leads to a decline in its federal tax revenues and an increase in unemployment insurance payments and other cyclically sensitive expenditures that are greater in that region than in other parts of the country. In addition, discretionary changes in federal fiscal policy can be targeted at specific regions. Examples include expenditures on job-creation projects and special tax incentives focused on regions with high unemployment as well as the special taxes on conventional oil and natural gas and the incentives for frontier exploration introduced as part of the NEP.

Because provincial government spending equals or exceeds federal spending in most regions, provincial budgets also have an important influence upon regional economic performance. Nevertheless, the provinces normally eschew active fiscal stabilization policies. As economists Judith Maxwell and Caroline Pestieau point out in a 1980 study of the impact of economic policies on the regions:

> In the past, only a few of the provinces (Ontario, and to a lesser extent, Quebec and British Columbia) have made deliberate efforts to adjust their taxes, spending, and deficits to counter trends in the business cycle. However, all three provinces have given less emphasis to stabilization in [recent] years, for the simple reason that it turned out to be too expensive... Indeed, during the past several fiscal years, the ten provinces taken as a group have been preoccupied with fiscal integrity rather than economic performance.[4]

Table 2 reflects two important sets of facts about the impact of government fiscal policies. The first is the pattern of federal and provincial budget balances across the regions. Federal spending consistently exceeds federal revenues in the Atlantic region, Quebec, and Manitoba and Saskatchewan. The Atlantic region's portion of the federal deficit has exceeded 30 percent of the region's gross domestic product (GDP) in every year shown in the table, while in Quebec and in Manitoba and Saskatchewan,

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[4]Judith Maxwell and Caroline Pestieau, *Economic Realities of Contemporary Confederation* (Montreal: C.D. Howe Institute, 1980), p. 53.

Table 2
Federal and Provincial Budget Balances by Region, 1975–84
(percentage of regional gross domestic product)

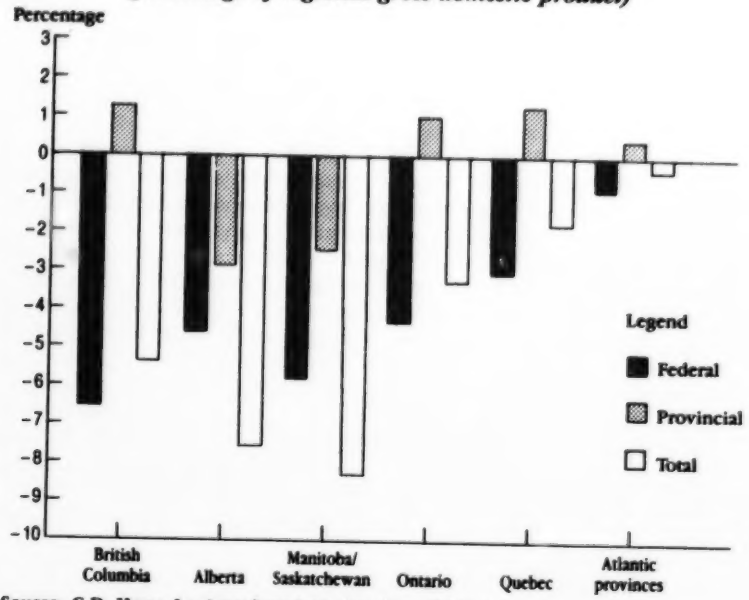
	1975	1980	1981	1982	1983	1984
British Columbia						
Federal	1.5%	1.7%	2.9%	– 0.8%	– 2.6%	– 3.6%
Provincial	– 0.7	– 0.1	– 0.4	– 0.2	0.2	0.8
Total	0.8	1.6	2.5	– 1.0	– 2.4	– 2.8
Alberta						
Federal	10.5	6.2	10.0	8.7	6.2	5.4
Provincial	3.7	7.0	5.4	3.2	2.2	3.5
Total	14.2	13.2	15.4	11.9	8.4	8.9
Man./Sask.						
Federal	– 4.9	– 5.3	– 4.3	– 8.2	– 8.9	–10.1
Provincial	– 0.3	0.3	– 0.4	– 2.4	– 2.3	– 2.8
Total	– 5.2	– 5.0	– 4.7	–10.6	–11.1	–12.9
Ontario						
Federal	1.7	0.2	0.9	– 1.9	– 2.5	– 3.3
Provincial	– 2.2	– 0.9	– 1.2	– 1.8	– 1.4	– 0.2
Total	– 0.5	– 0.7	– 0.3	– 3.7	– 3.9	– 3.5
Quebec						
Federal	– 5.5	– 6.1	– 6.5	– 9.2	– 9.5	– 9.5
Provincial	– 1.6	– 3.5	– 2.6	– 1.6	– 1.0	– 1.3
Total	– 7.1	– 9.6	– 9.1	–10.8	–10.5	–10.8
Atlantic provinces						
Federal	–32.8	–39.8	–34.3	–35.6	–34.5	–35.1
Provincial	– 1.9	– 1.4	– 2.4	– 2.3	– 2.6	– 2.0
Total	–34.7	–41.2	–36.7	–37.9	–37.1	–37.1

Note: Each federal balance represents the difference between federal expenditures flowing to and federal revenues extracted from the residents of each region. Each provincial balance is the difference between the expenditures and revenues of the provincial governments that make up the region.

Source: Statistics Canada, *Provincial Economic Accounts, 1969–1984* Cat. no. 13–213, (Ottawa, 1986).

the regional portion of the federal deficit has ranged from 4 to 10 percent of regional GDP. Ontario and British Columbia consistently generated surpluses for the federal treasury until the recession of 1982. Alberta stands out as the only province that has generated a surplus for the federal government in every year shown. Despite the recession and the province's slow recovery from it and despite several adjustments in energy pricing and taxation rules during the 1982–84 period to take account of declining world prices, the federal government continued to extract more revenue from Alberta than it spent there.

Figure 6
Changes in Budget Balances by Region, 1981–84
(percentage of regional gross domestic product)



Source: C.D. Howe Institute based on data from Table 2.

The pattern of provincial budget balances is similar, although not identical. The lower-income regions (the Atlantic provinces, Quebec, and Manitoba and Saskatchewan), which have consistently generated federal budget deficits, have also consistently generated provincial budget deficits. Among the higher-income provinces, only Ontario has run consistent budget deficits. Alberta stands out as the only province that has run a budget surplus in every year. British Columbia has come close to balancing its budget in most years.

The second set of facts relates to the stabilization effects of federal and provincial budgets. In gauging these effects, one looks at the change in budget balances over time, rather than at their level. For example, movement toward deficit (or a larger deficit) suggests that fiscal policy is

providing a cushion in recession years or a stimulus in years of economic expansion. Figure 6 shows the change in budget balances for each of the regions between 1981 and 1984 — a period covering the 1981–82 recession and the 1983–84 recovery. It indicates that the federal balance moved toward a larger deficit (or a smaller surplus) in all regions of the country, but that the extent to which it cushioned the recession varied from region to region. In the Atlantic provinces, where the federal deficit was already large, the increase was small. The largest — and presumably most stabilizing — increases in the deficit in the recession year of 1982 occurred in Manitoba and Saskatchewan, British Columbia, and Quebec. After the national recovery was under way in 1983, the federal budget balance continued to deteriorate not only in Western Canada, where unemployment was still rising, but also in Ontario and Quebec, where unemployment was falling. An important reason for the continued rise of the federal budget deficit in central Canada was the rapid increase in interest payments on the federal debt to Ontario and Quebec residents.

Changes in the provincial government balances also varied markedly. Only the three Prairie provinces followed expansionary, countercyclical fiscal policies. The Atlantic provinces, Quebec, Ontario, and British Columbia all adopted policies of fiscal restraint. In Ontario and Quebec, where a robust export-led recovery was under way, provincial restraint represented sensible stabilization policy and also addressed concerns that bond-rating services might downgrade the governments' credit ratings. In the Atlantic region and British Columbia, however, provincial fiscal restraint was actually procyclical, depressing economic activity in a period when private demand was weak and unemployment rising. The Atlantic provincial governments had little choice but to cut back so as to keep their debt levels from running out of control and to avoid losing their ability to borrow at reasonable interest rates in the North American capital market. In British Columbia, the provincial officials made the judgment that the reduction in natural resource revenues in the early 1980s reflected a fundamental shift in world market prices and that the government had little choice but to adapt by cutting its spending.

Trade and Investment Policies

Certain aspects of the trade and industrial policies of Canadian governments have also contributed to regional imbalances. One example has been the federal policy of voluntary export restraints (VERs) on Japanese automobiles. In 1981, Canada followed the United States in reaching an agreement with the Japanese government whereby the latter obtained cutbacks in its firms' exports of automobiles to North America. A U.S. study of the impact of VERs, conducted by Brookings Institution

economist Robert Crandall, indicates that they have raised both the demand for automobiles produced in North America and the prices of all cars sold in the United States.[5]

Automobiles and parts manufacturers in Ontario and Quebec have benefited greatly from this policy. Their real output, which had declined during the recession, increased by 50 percent between 1982 and 1984, and they have undertaken an aggressive investment program aimed at rationalizing and retooling the industry. Central Canada's supplying industries, such as steel, rubber, plastics, and textiles, have also benefited from increased demand for automobiles built in North America. VERs have, however, brought little benefit to the regions outside Ontario and Quebec. The increase in output has been in central Canada, and the new investment is concentrated there, especially in Ontario. Even the increased demand emanating from Ontario has been offset elsewhere by the higher prices for both foreign and domestic cars that resulted from VERs.

Industrial subsidies and bailouts during the recovery period have also favored central Canada. It has been the focus of aid to companies such as Maislin, Petromont, and Domtar and to foreign automakers such as Toyota, Honda, and Hyundai. Industrial subsidies have also been granted in other parts of the country, but it appears that a disproportionate amount of attention has been paid to assisting firms in central Canada at a time when it was the region least in need of policy measures to support or stimulate growth.

Summary

Most available evidence points to external factors as the dominant causes of the serious regional imbalances of economic activity in Canada. Low prices for commodities — agricultural and forest products and minerals, as well as petroleum — are primarily responsible for the relatively weak employment growth and high unemployment rates outside central Canada. Evidence also indicates, however, that rather than providing a stabilizing influence, key government policies have actually aggravated differences in regional performance.

The impact of federal monetary and fiscal policies on real interest rates and the external value of the Canadian dollar has created greater problems for the resource-producing provinces of the West and the Atlantic region

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[5]Robert W. Crandall, "Import Quotas and the Automobile Industry: The Costs of Protectionism," *Brookings Review* 2 (Summer 1984): 8–16. Crandall estimates that as a result of VERs, Japanese cars have cost at least U.S.$1,000 more while North American produced cars have been U.S.$400–800 more. In Canada, the price effect may have been slightly less because of the availability of low-priced cars from South Korea.

than for central Canada. Federal fiscal policy provided little countercyclical stimulus in the Atlantic provinces during the recession and has perversely continued to provide stimulus in central Canada even since economic activity began to rebound strongly in that part of the country. Provincial fiscal policies have provided meaningful countercyclical stimulus only in the Prairie region. Perceived financial constraints have led the Atlantic and British Columbia governments to adopt policies of fiscal restraint that have aided their credit ratings but have added to the weakness of their economies.

Trade and industrial policies, such as the negotiation of a VER agreement for Japanese autos and several federal and provincial industrial subsidies, have favored Ontario and Quebec, while the energy pricing and taxation regime has weakened economic activity in Western Canada and aggravated regional differences in economic performance.

Understanding the varying performances of Canada's regions clearly requires an evaluation of a broad range of external and internal economic developments. Although Canadians can do little to alter the external pressures, federal and provincial governments could do much to better coordinate their economic policies and thereby avoid exacerbating regional divergences.

The Prospects for Resource-Producing Regions

In 1986, the Canadian economy entered its fourth year of economic recovery. There were some signs in 1985 that economic growth was becoming better balanced across the regions of the country, but the events of early 1986 have reduced the prospects for continued progress toward balance. Three factors — the collapse of world oil prices, the passage of a U.S. farm bill that has depressed world grain prices, and continued U.S. protectionism — seem to ensure further difficulties for Canada's resource-producing regions in 1986.

The Oil Price Collapse

The "third oil shock" — a drop of more than 50 percent in the world price of oil since mid-January 1986 — favors oil-consuming countries and regions and hurts oil producers. Just as the first two oil shocks created regional economic imbalances in Canada, so too will the third, but the winners and losers will be reversed. If recent crude oil prices in the U.S.$10–15 range are sustained, a retrenchment of major proportions can be expected in the petroleum industry in Western and Atlantic Canada. The price decline will increase the purchasing power of all Canadian energy-users, but the impact will be most pronounced in Ontario and Quebec, where energy consumption is highest. The results for Atlantic Canada will be mixed, with the positive effect of lower prices for energy-users being offset by the setback to

exploration and development off the coasts of Newfoundland and Nova Scotia.

Lower oil prices could also reinvigorate the world economic recovery, particularly in the major oil-consuming countries. The magnitude of the positive impact of lower oil prices on aggregate world demand will depend, however, on the fiscal and monetary policy response of the large industrial economies, such as those of the United States, Japan, and West Germany. For example, if these countries increase energy taxes to reduce budget deficits and encourage conservation or if they tighten their monetary policies to gain the maximum anti-inflationary effect, the positive impact of lower oil prices on aggregate demand could be reduced. So far the major countries have not imposed new energy taxes; neither do they appear to have tightened monetary policy excessively. With time, therefore, lower oil prices should translate into stronger demand for manufactured goods and for natural resources. In other words, an important indirect effect of lower oil prices could eventually be stronger markets for minerals, forest products, and other raw materials. Such a rise in demand would be a positive development for British Columbia, Quebec, and the Atlantic region. The significant excess capacity that exists in most commodity markets means, however, that prices are likely to strengthen only after a lengthy time lag.

The U.S. Farm Bill

Grain prices pose another concern for Western Canada. In December 1985, the United States enacted a farm bill that is having a serious effect on Canadian grain prices and farm incomes. The new law fundamentally alters U.S. farm policy by lowering price supports, increasing direct farm income subsidies, and augmenting farm export incentives. The twofold goal is to contain the spiraling costs of U.S. agricultural subsidies and to counter the European Community's Common Agricultural Policy, which protects its domestic market and subsidizes its agricultural exports.

The reduction of U.S. price supports for such commodities as wheat, corn, and soybeans means that the U.S. and world prices for these products will decline, reducing the earnings of Canadian farmers. U.S. farmers will not be hurt by the elimination of price supports; in effect, every dollar they lose because of lower market prices will be made up by increased farm-income support payments. Canadian farmers who participate in the federal government's Western Grain Stabilization Program — a voluntary farm-income insurance scheme — will receive payments that partially offset the fall in grain prices. Lower prices in Canada's already weak farm sector will, however, further depress economic activity in Western Canada and worsen the regional economic imbalance.

U.S. Protectionism

Two of Canada's other natural resource industries are also currently threatened by U.S. protectionism. British Columbia's softwood lumber industry is vulnerable to mounting pressures in Congress for countervailing duties of as much as 30 percent on Canadian lumber to offset Canadian stumpage practices, which the U.S. lumber industry considers an unfair subsidy. In early 1986, Atlantic Canada's groundfish industry suffered the imposition of a 5.8 percent countervailing duty based on a U.S. Commerce Department ruling that federal and provincial programs for that industry represent unfair subsidies.

These cases, like that of the new U.S. farm policy discussed above, are particularly visible indications of the tendency for protectionist pressures to be focused on Canada's natural resource sectors, which are located primarily in the regions outside central Canada. Another example of this tendency is a bill proposed by Representative Sam Gibbons, which would enable U.S. producers to seek countervailing duties on imports that have a cost advantage because of subsidies to the natural resources they use as inputs. This "upstream subsidies" proposal is part of an omnibus trade bill currently being developed in Congress that would also threaten Canadian access to the U.S. market by reducing presidential discretion in the application of import quotas for industries injured by imports. If the provisions under consideration had been law in 1984, when the U.S. International Trade Commission ruled that that country's steel industry was suffering injury from imports, the Canadian steel industry would now be subject to strict quotas on exports to the United States.

The Overall Prospect

The near-term prospect for resource-producing regions is for continuing weak prices and growing protectionist pressures. Although steps can be taken to counter protectionism, Canada can do little to influence world commodity prices, and thus it has little choice but to adjust to them. Doing so will mean a continuation of the recent shifting of much population growth from west to east. It will also mean that investment plans, which until recently had indicated much stronger growth in energy than in nonenergy industries, will have to be changed to reflect new realities. Personal and corporate decisions in the private sector can and should ensure that these adjustments take place.

Implications for Policy

Recent events underscore the sensitivity of regional economic performance to shifts in world markets. In the 1970s, the resource-producing regions en-

joyed the benefits of rising prices in world markets — a situation that created its own stresses of labor shortages, inflation, and conflict-prone federal-provincial relations. In the 1980s, the turbulence of world markets is testing both the ability of Canada's private sector to adjust quickly and flexibly and the ability of governments to ease and facilitate the adjustment.

In an economy with such diverse regions as Canada's, the need to adjust to rapid change takes on added significance. Flexibility within regions as well as industries provides the best protection against sudden shocks arising in world markets. Realization of this fact is bringing about a welcome change in Canadian thinking about regional policy. The Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission), for example, emphasized the importance of flexible interregional adjustment as a primary means of reducing long-standing regional disparities. The analysis presented in this study indicates that policies that encourage interregional adjustment can also be effective in alleviating the regional impact of long cyclical swings in world commodity markets.

In thinking about policies to promote adjustment, governments should learn the lesson of past mistakes — that excessive interference with market signals may shield Canadians from changing world market conditions but it also encourages inefficiency and adds to long-term structural problems. Examples of such shields include the former holding of Canadian oil prices below world levels, which discouraged both energy conservation and increased domestic production; regionally differentiated unemployment insurance benefits, which discourage workers in high-unemployment regions of the country from moving to regions where job opportunities are better; and the system of regional and industrial subsidies, which props up declining industries or encourages the expansion of uncompetitive production.

The alternative approach is for government to provide temporary "cushions" of adjustment assistance to maintain the incomes of those hardest hit by change — those who must restructure their operations, find new jobs, or acquire new skills. Policies that thus promote adjustment by easing its impact on individuals should also promote regional fairness within the Canadian federation. Such policies should be symmetric: if resource-consuming regions are cushioned when commodity prices boom, resource-producing regions should be cushioned when commodity prices slump. This principle — of which westerners are acutely aware but which central Canadians seem to ignore when resource prices are falling — should be central in designing an appropriate response to the recent collapse in oil and grain prices. If the harmful effects of sharp

movements of commodity prices are not cushioned in both directions, the losers question the fairness and the value of Confederation.

Options for moderating regional differences in economic performance should, therefore, be judged on the basis of their efficacy for promoting adjustment, for cushioning its impact on individuals, and for providing a measure of regional fairness. This principle has implications for policymakers in three areas — macroeconomic policy, sectoral policies, and trade policies.

• *Macroeconomic policy.* The big levers of monetary and fiscal policy are not well suited to fine tuning economic performance across the regions of the country. Indeed, the North American policy mix of fiscal ease and monetary restraint from 1981 to 1984 added to Canadian regional imbalance through effects on real interest rates and the external value of the Canadian dollar. The mix has already shifted, however, as the aim of monetary policy is increasingly supportive of noninflationary growth while the focus of fiscal policy is turned to deficit reduction.

Some people may argue that pursuing lower interest rates, even at the cost of weakening the Canadian dollar, would alleviate regional divergences. Yet easing monetary policy would probably have only limited success. Canada's interest rates are largely determined by developments in world (especially U.S.) financial markets. Thus, efforts to push down interest rates in Canada usually succeed only in bringing about a depreciation of the Canadian dollar. Such a policy-induced depreciation of the exchange rate would be a mixed blessing. The Canadian economy faces the classic conflict of a two-sector economy: a low exchange rate is appropriate for one but not the other. A lower value for the Canadian dollar would, at least for the short term, improve the competitive position of the resource-producing industries of Atlantic and Western Canada, but it would also risk overstimulating central Canada's manufacturing sector, where capacity utilization is nearing the peak levels reached in 1981. A lower Canadian dollar, by making Canadian exports even more competitive in the United States, also would invite new protectionist measures aimed specifically at Canada.

For these reasons, the best option for broad macroeconomic policies is to continue the efforts already under way to achieve a more balanced policy mix through steady but gradual deficit reduction complemented by stable noninflationary growth of the broad monetary aggregates. Where possible, the choice of federal deficit-reduction measures should seek to reform spending programs and broaden the tax base in ways that encourage interregional adjustment. At the same time, efforts should be made to avoid changes in federal fiscal policy that worsen cyclically induced

regional differences, like those generated in central Canada by the recent, continued increases in the federal deficit.

• *Sectoral policies.* Policies that affect the energy, agricultural, and manufacturing sectors can also help to moderate regional economic differences.

Energy Policy

In 1986, as the sharp decline in world oil prices has persisted, pressures have increased for changes in energy policy to offset the effects of low oil prices. Canadians have expressed a variety of views about the appropriate government response to the oil price collapse. Some have argued that the best approach is simply to let the market work, even if it means that some well-managed companies face bankruptcy. Others have argued that allowing such companies to go out of business is not in Canada's long-term interest and that governments should take some steps to prevent this outcome. Among those who argue that government action is needed, there are different views on federal and provincial responsibilities. Some argue that the oil industry deserves federal assistance because it accepted lower-than-world prices and increased taxes when oil prices were high. Others argue that cushioning the effect of lower oil prices is chiefly the responsibility of the oil-producing provinces.

Policymakers have two broad options for assisting the petroleum industry. The first is for governments to intervene to hold Canada's oil price above the world price.[6] Canada followed such a policy in the 1960s, and the Western Accord does contain a mechanism for governments to establish a floor price for domestic oil. To make such a policy effective, however, Canada would have to limit imports of cheaper foreign oil (by imposing either a special tax or a quota) and hold down domestic crude oil production. Yet such limitations — like floor prices themselves — run directly counter to the market-oriented energy policies embodied in the Western Accord.

The second option is for federal and provincial governments temporarily to reduce taxes and royalties on oil production. Alberta has already introduced a temporary program of royalty tax credits and drilling incentives designed to cushion the impact of lower world prices. The federal government is considering eliminating the PGRT more quickly than scheduled. Here the question facing governments is whether taxes that were imposed (or increased) during a period of rising prices should quickly be removed (or reduced) when prices collapse.

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[6]See, for example, comments by Robert Blair, President of Nova Corp., quoted in Kevin Cox, "Nova Wants Ottawa To Stop Oil Price Slide," *Globe and Mail*, May 2, 1986, p. B–3.

Some government action can be justified to meet the objectives of providing temporary assistance and serving regional fairness. If government action is also to achieve the objective of promoting adjustment, tax reductions to cushion the hardest-hit parts of the energy sector will be a better response than price supports to shield it from market forces. The federal government may be reluctant to eliminate the PGRT immediately, both because the outlook for oil prices remains uncertain and because of the impact on targets for federal deficit reduction. This is an important tradeoff, but a temporary program such as credits against PGRT liabilities could be a fair response to regional concerns. One way to limit the resulting impact on the federal deficit would be to shift energy taxes away from production toward energy consumption, a move that would maintain government revenues and also encourage energy conservation.

Agricultural Policy

The recent drop in Canadian grain prices has evoked pressure for government to cushion the impact on farmers. The federal government has already responded with subsidized "commodity-based mortgages" that will be made available to farmers who have substantial debt but reasonable long-term prospects; changes in their mortgage principals will be determined by a formula based on farm commodity prices.[7] The federal government has also introduced the Rural Transition Program to help individuals with poor long-term prospects in farming to find other employment. Provincial governments have provided considerable assistance to agriculture in response to drought, changes in freight rates, and world market instability.[8]

Canadian governments can do little, however, to correct the excess world supplies of agricultural products that have been created by subsidies, import quotas, and price controls in many countries around the world. Neither can governments change the fact that agriculture has become increasingly industrialized. There are fewer farms today than there were in the past, and they are bigger, more specialized, and more productive. Large agricultural firms now coexist with the traditional family farms that represent a way of life most Canadians would like to preserve. The challenge in designing farm policies in response to the recent price declines, therefore, is to allow market signals to promote adjustment by large agricultural firms but to provide temporary assistance to family farms that are battling for survival.

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[7]These measures were announced in the February 1986 federal budget. See *Budget Papers* (Ottawa: Department of Finance, February 1986), pp. 16–18.

[8]See, for example, Alberta, *Our Commitment to Agriculture* (Edmonton, April 1986); and Saskatchewan, *Budget Address* (Regina, March 1986).

Assistance to Manufacturing

Considering the difficulties experienced by Canada's resource-producing sectors in recent years, the heavy policy emphasis on assisting the relatively healthy manufacturing sector is difficult to justify using criteria of adjustment or of regional balance. Pressures to protect the Canadian automobile industry, for example, remain strong, yet its competitiveness is already being aided by the decline in fuel prices, the recent appreciation of the Japanese yen, and the weakness of the Canadian dollar. The appreciation of the yen is also providing economic incentives for investment in Canada by Japanese auto companies and thus weakening the case for government subsidies to attract such investment.

• *Trade policy.* Protectionist measures by the United States pose a significant risk to Canada that falls disproportionately on the resource-producing regions. The April 1986 action of the U.S. Senate Finance Committee, which so nearly prevented Canadian-U.S. trade negotiations, clearly indicated the pressures on the Reagan administration to impose more protectionist policies, which could imperil Canadian exports of softwood lumber, fish, and agricultural products. Senators whose constituencies include firms in these industries argue that Canadian counterparts receive unfair subsidies. Although the administration has successfully resisted such protectionist pressures in the past, proposed changes to U.S. trade law would limit presidential discretion and increase the risk of successful legal action against Canadian exporters.

A key issue in Canadian-U.S. trade negotiations is to seek agreement on ways to reduce the unpredictable application of U.S. trade laws — including countervailing duties and emergency safeguard measures — to bilateral trade with Canada. Although the United States is not likely to agree to a blanket exemption from its trade laws for Canada, there are steps that both countries could take to ensure more secure bilateral market access. First, an agreement on the definition of trade-distorting subsidies would reduce existing uncertainties. Second, an agreement to apply countervailing duties only to the differential between subsidies available to firms in the two countries would be an improvement over current laws, under which only the subsidies of the exporting country are examined. Third, an agreement to exempt one another from emergency safeguard actions except in cases in which bilateral trade is the primary cause of injury would avoid situations in which exporters in one country are "sideswiped" by emergency measures directed at exports from third countries.

Threats of U.S. trade restrictions on Canada's resource exports reinforce the perception of resource-producing regions that their interests could be damaged unless progress is made in bilateral trade negotiations.

Although manufacturing industries have much to gain from more secure access to the U.S. market, central Canadian leaders have been publicly reluctant to support the bilateral trade initiative. Many people in the resource-producing regions perceive this reluctance as a self-serving effort to continue sheltering Canada's manufacturing, even at the potentially disastrous cost of protectionist actions against Canada's resource industries.

A more positive stance by Ontario and Quebec — one that recognized the potential gains to manufacturing of more secure access to the U.S. market — would provide an important signal to Canada's trading partners that the entire federation is prepared to fight protectionist threats to its exports.

Conclusion

Regional economic imbalances caused by world market forces have tested the durability of the Canadian federation many times in its history. Important lessons have been learned about the limits to the ability of government intervention to offset fundamental changes in the world markets upon which Canadians depend for their enviable standard of living.

Canadians are searching now for policies to deal with the negative effect on Western Canada of declining oil and grain prices. Good policy will provide temporary relief for regions as well as for industries and individuals adversely affected by sudden changes in world markets. But because of the past record of intervention, the debate is focused on the issue of how best to provide assistance and fair treatment without interfering with market prices. No one wants to see adjustment through bankruptcy, but it is difficult to believe that Canada will benefit in the long term if it repeats the kind of market interference that discouraged adjustment when prices were rising.

Having learned some hard lessons about government intervention in price setting at the West's expense in the 1970s, changes in policy that reflect those lessons should not also be at the West's expense. The solution to regional imbalances in the 1980s is not to be found by setting Canadian resource prices above world levels. Price ceilings that prevent market adjustments in times of resource scarcity and high prices should not be replaced with price floors that prevent adjustment in times of excess supply and low prices. The lessons of our past point to another path: creating more flexible systems of resource taxation that cushion the effects of sharp movements in commodity prices and encourage the adjustment necessary to improve the future prospects for all of Canada's regions.

Policy Analysis Committee

The C.D. Howe Institute Policy Analysis Committee (HIPAC) was formed in 1980 from the Canadian Economic Policy Committee, established in 1961. This change was brought about to help streamline the Institute's activities and to improve the process of accountability of staff to the Institute's members.

HIPAC's membership is drawn primarily from business and labor organizations that are members of the Institute. To encourage diversity of perspective, HIPAC also includes members from the academic world, from agricultural organizations, and from the professions. Two Regional Advisory Committees have been established across the country to assist HIPAC in determining its research agenda and to ensure that the research conducted by the Institute on its behalf is relevant and reflective of regional points of view.

Full meetings of HIPAC's membership are held twice each year. The purposes of these meetings are to hear expert speakers on current policies, to engage in frank discussion of topics raised by members, and to identify a research program that the Institute can carry out effectively to improve public understanding of important policy issues. The professional completion of this program is then supervised by the Institute, which coordinates with the HIPAC Executive Committee.

The Chairman of HIPAC is H.A. Hampson (President and Chief Executive Officer, Canada Development Corporation).

Recent publications prepared in conjunction with HIPAC include:

- ***Paying by the Installment Plan: Analysis of the February 26 Federal Budget***, C.D. Howe Institute Commentary, by Wendy Dobson and Edward A. Carmichael (March 1986).
- ***Reorienting the Canadian Economy: Policy Review and Outlook, 1986***, by Edward A. Carmichael (December 1985).
- ***Keeping an Eye on the Ball***, C.D. Howe Institute Commentary, by Wendy Dobson (September 1985).
- ***Budget Reform: Should There Be a Capital Budget for the Public Sector?***, Policy Commentary no. 6, by D.A.L. Auld (August 1985).
- ***Taking the Initiative: Canada's Trade Options in a Turbulent World***, Observation no. 27, by Richard G. Lipsey and Murray G. Smith (May 1985).
- ***Education Policy in Canada: The Urgent Issues***, C.D. Howe Institute Commentary, by Claude E. Forget (February 1985).